SUPPLEMENT TO ECONOMIC INDICATORS

Kauai County Profile

First Hawaiian Bank Research Department November/December 1991

Kauai County in 1991

This year marks a winding down phase for the Kauai County economy. The visitor industry is in a slump, construction is expected to slow down and there are some concerns for the sugar industry's health. While these factors have contributed to a higher level of uncertainty for many in the business community, some of these slow-growth factors are shared with the other neighbor island counties.

Kauai County's 1990 census, released earlier this year, showed a 23-percent population growth rate from 1980 to 1990, to 51,177 residents. Much of the growth occurred in Hanalei and Kawaihau. Lihue, the county seat, had a 15-percent increase.

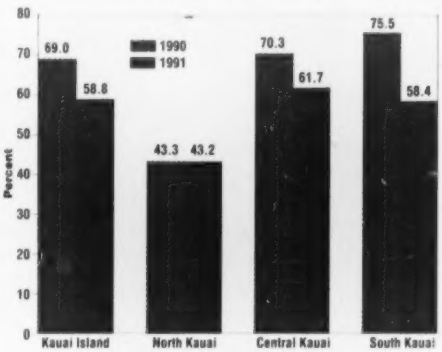
The labor market is showing more slack with slower economic growth, but many employers still consider the job market to be tight in certain skills. The unemployment rate increased from 2.8 percent in 1989 to 3.6 percent last year. For 1991, it has averaged 3.7 percent through October. Hotels have been a stable employer despite the visitor slump.

Visitor Industry. Kauai's visitor industry woes are due to the U.S. recession, additions to the visitor plant inventory and the Persian Gulf war. Last year, 1,118,930 westbound visitors stayed on Kauai overnight or longer, two percent fewer than in 1989. The eastbound count increased by nine percent, to 167,000 visitors. In spite of the eastbound visitor growth, the eastbound market accounts for a small share of visitors.

Being more dependent on the westbound market is a mixed blessing. The Persian Gulf crisis primarily impacted the eastbound market. But, while the eastbound market is recovering, the westbound market is still in recession. Through October, the eastbound market provided 139,720 visitors, no gain over the same period last year, and the westbound market was down by 4 percent to 916,280 visitors.

The first graph shows the decline in Kauai's occupancy rates. In this depressed market, the Grand Hyatt Hotel in Poipu opened in November of last year. This year the Princeville Hotel reopened after major renovations were completed on the original hotel. These hotels added 605 and 252 rooms, respectively, to the island's inventory.

Occupancy Rates through September



Developers are cautiously surveying future ventures, but there are some on-going projects. Construction of the 220-unit Point at Poipu should be completed by the end of next year. The 42-unit first phase of the 73-unit Regency at Poipu Kai is nearing completion. Lawai Beach Resort just broke ground on its 60-unit third phase project. Kiahuna Golf Club hopes to start expansion of its golf course by another nine holes. Poipulani is planning for an 18-hole executive course and 90 houselots as soon as financing becomes available.

To counter visitor industry softness, the Kauai chapter of the Hawaii Visitors Bureau (HVB) is stepping up marketing efforts in the major westbound markets and in Europe and the Pacific Rim. In a major marketing effort the Kauai Advertising Group (the County, Kauai HVB, the Princeville Resort Association, Poipu Beach Resort Association and the Royal Coconut Coast Visitors Association) and United Airlines have budgeted $905,000 for a national advertising campaign in travel magazines, with special emphasis on the West Coast market.

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A popular visitor activity has been the Zodiac boat tours from Hanalei to the Napali Coast. These tours have grown so fast that the operators are faced with restrictions on the use of the Hanalei River where passengers are picked up. Overuse of the river bank is a concern of the County, which is now requiring the boat owners to operate with a special management area permit. The boat owners disagree, and the case is in litigation. The industry maintains that it generates $6 to $7

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million a year and is a major north shore employer.

To aid tourism, the County markets Kauai through its film industry. The industry generated over $6 million in revenues this year. **"A Honeymoon in Vegas"** and the German episodic **"Dream Island II"** were filmed this year. Some other projects include nationally produced television ads. The County is assisting this industry by publishing a brochure highlighting the island's movie settings. Next year, a top feature film is expected to be filmed on Kauai.

Kauai's visitor industry is in a period of consolidation. The major market will continue to be the U.S. mainland, but visitors may tend to be budget conscious. Marketing in Europe is worthwhile because of longer stays. On the other hand, many Japanese visitors come to Kauai for just day trips. If some of those visitors were to stay at least overnight, Kauai would benefit from their bigger spending.

Construction. Construction activity is still growing this year, but the pace is at a lower level than in past years. Slower times are ahead, which will give Kauai time to catch up with infrastructure bottlenecks. The industry is concerned with lower permit activity, some financing problems that have interrupted some projects, and a more moderate outlook for the economy.

Last year, construction activity grew by 36 percent to $95 million, but growth was only six percent in the first nine months of 1991. Through October, private permits declined by 38 percent to $112 million, and public contracts were down by 14 percent to $42 million. Despite the lower growth outlook, construction will continue to contribute significantly to Kauai's economy.

Kauai has some major projects planned or under way. Work has started on Alexander & Baldwin's 1,000-acre Planned Community at Kukuiula Bay. The 213-acre Phase I will feature 730 single-family and 1,000 multi-family units. Mass grading for Phase I started in August and should be completed in 14 months, and home construction should start in 1993. A&B is developing an aerated waste water treatment plant for the project, consisting of four lagoons. Two of the lagoons will be built initially, and the other two will be activated when that facility becomes a regional treatment plant.

A&B is building its Eleele Nani Phase II subdivision to satisfy the affordable housing requirement for its Kukuiula project. Of the 146 units, 80 percent will be affordable, with half of those units expected to be completed by early 1992.

Grove Farm Company is planning four developments in Puhi. Next year, Grove Farm hopes to start construction on 200 single-family and 500 multi-family homes on Puhi Road behind the existing Puhi subdivision. Grove Farm is also beginning to lease Village West, which will be part of the Kukui Grove Shopping Center. A temporary driving range will be set up next to it. Also, a 50-acre industrial park is being developed, located adjacent to the present industrial park. Grove Farm also plans to build its own waste water treatment plant to serve its development.

The foundation is being laid for diversified agriculture to be a significant contributor to the Kauai economy.

The State and County are also involved in housing projects. The Hawaii Finance Development Corporation is developing the Cliffside at Hanapepe, consisting of single-family affordable and market-priced lots; 188 units are expected to be completed by June 1992. The County, with HUD and the Hawaii Housing Authority, is developing the Koloa Paanau multi-family rental project, and completion is targeted for early 1993.

Expanding the housing inventory is good news to those hoping to own a home. In spite of some real estate deflation, prices are still high. Through October, single-family sales were down by 40 percent to 120 units, and the average price was down by six percent to about $310,000. Condominium unit resales were down by 47 percent to 110 units, but prices were up by 10 percent to almost $200,000.

Sugar. Poor weather and acreage reduction have lead to lower production. Through October, production amounted to 157,128 tons, 15 percent less than last year. While some companies are in the red, the growers are committed to doing everything possible to keep sugar viable on Kauai.

A big concern is whether Kekaha Sugar can continue as an economically sound plantation after next year. All of its cane acreage is on leased land, and the leases mature in 1993. Negotiations for new leases start in January 1992, and until land tenure is resolved, the company is in a holding pattern. Production this year is expected at 48,500 tons, up by three percent from 1990.

Lihue Plantation's production for 1991 is expected to decline by 16 percent to 50,700 tons. Its yield is likely to decrease from 8.6 tons sugar per acre (TSA) in 1990 to 7.0 TSA this year. Production for 1992 is forecasted at 43,700 tons. The phaseout of 3,300 acres at Kealia will be completed this year, but Lihue will still be Kauai's largest plantation, with 11,200 acres under cultivation. The phaseout is consistent with cost reduction measures. The acreage location, 20 miles away from the Lihue mill, makes hauling costs prohibitive.

Production is mixed at Kauai's other plantations. Gay & Robinson is expected to produce 19,500 tons of sugar this year, up by two percent from 1990. Olokele's production is expected to be 29,000 tons, up by seven percent. McBryde's production forecast is 38,400 tons, down by 18 percent; this huge drop is due to the 4,000-plus acres of cane land that have been replanted in coffee.

Diversified Agriculture. In 1990, revenues from diversified agricultural crops and livestock on Kauai were down by four percent to $13 million. Despite the decline, the industry is upbeat. The foundation is being laid for diversified agriculture to be a significant contributor to the Kauai economy.

A leader in diversified agriculture is McBryde Sugar. By the end of 1992, 5,500 acres will be in coffee production and 580 acres in macadamia nut production. Their joint venture with Hills Brothers Coffee to produce and market premium Hawaii coffee is still

being test-marketed. Test-marketing started early this year, and it will now involve more U.S. mainland cities. McBryde's planting plans for macadamia nut acreage are completed. Current production of macadamia nuts is 135,000 pounds wet-in-shell, and production should reach 4 million pounds by the year 2000.

Guava is still a promising crop despite recent decreases in demand. Kilauea Agronomics markets guava drink through Ocean Spray. Demand for the Mauna Lani brand drink peaked two years ago, primarily due to additional competition from other less pricy drinks. Last year, Kilauea's parent company, C. Brewer & Co., purchased Hawaiian Fruit Preserving Co. Kilauea is a major supplier of guava to Hawaiian Fruit.

The value of flowers and nursery products increased by 13 percent in 1990 to $70 million. Despite the national recession, demand for Kauai's products should increase this year. One reason for increased sales is a new brochure highlighting the island's tropical flowers. This helps mainland florists identify the products, and their responses have been positive.

There are two other bright spots. Papaya growers are expected to get a boost this year when a University of Hawaii prototype of a dry heat processing plant is installed in December. Exports of Kauai papayas have been restricted since the previous treatment plant closed several years ago due to financial problems. A similar prototype unit has been successful in Hilo. Secondly, Kauai is considering establishment of an agricultural park, and five sites are being reviewed.

Military. Controversy surrounds the Pacific Missile Range Facility (PMRF) "STARS" project due to the potential hazard from propellants used by the Polaris missiles. Overall, PMRF is one of Kauai's larger employers, and it contributes significantly to the County's economy by providing higher paying jobs.

Of the PMRF civilian contractor's current fiscal year procurement budget of $5.6 million, $3.5 million was spent within Kauai. Its 500-employee payroll amounted to $19 million, and 99 percent of the employees are Kauai residents. The military has a civil service staff of 107 employees and a payroll of $5.6 million.

Retail Trade. Many retail merchants are reporting sales declines from last year. Retail business receipts through September were four percent lower than last year. Lower visitor traffic is a big reason for the decline in sales for tourist oriented shops. However, even those shops that cater to the residents have had to work harder to get sales.

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At the Kukui Grove Shopping Center, sales recovered over the summer months due to increased marketing efforts targeted at residents. In spite of being a regional shopping center with most of its sales generated from residents, the Kukui Grove's first quarter sales were negatively affected by the Persian Gulf war. Part of the marketing effort included opening Thursday nights. A major expansion of the shopping center is still in the planning stage.

Infrastructure. Kauai has had several years of robust economic growth, which has strained its infrastructure. However, the outlook for refuse disposal is optimistic because the County's pilot recycling and composting program has been successful in controlling the amount of waste being sent to the Kekaha Landfill. Green waste is being chopped up for compost under contract, reducing by half the flow of refuse to the landfill.

Insufficient sewage treatment capacity has held up some developments. For example, AMFAC/JMB's Hanamaulu development is on hold. However, the County has plans to expand the Lihue treatment plant by one million gallons per day (mgd) at a cost of $15 million. The project may be ready for bidding by the first quarter of 1992. In addition, the Eleele treatment plant is being expanded from its present 0.4 mgd capacity to allow A&B to develop its affordable housing project, Eleele Nani II.

Wastewater treatment services were extended this year. Sewer lines were installed in Hanapepe, allowing its businesses to hook up to the system and opening the town to potential new developments. Sewer lines are being laid in Kapaa to serve business and commercial users along Kuhio Highway. These lines will connect to the Wailua treatment plant, which has excess capacity.

Increased traffic is another sign of a growing economy, and the State is undertaking major projects to alleviate traffic congestion. The State will be constructing the last three phases of a five phase project to widen Kuhio Highway from Hanamaulu to Kapaa, Kauai's major traffic artery on the east side. In January, construction will start on a contraflow lane from Leho Drive to Haleilio Road at a cost of $870,000. Then the contraflow lane will be extended to the Uhelekawawa Bridge over the Wailua River for $850,000. In the last phase, the Uhelekawawa Bridge will be widened at a cost of $800,000.

Along the North Shore the State will build a new highway to connect Kalihiwai Road to Princeville, at a cost of $8.5 million. The State is also in the design stage of improving the intersection of Nawiliwili Road and Waapa Road.

Plans are progressing for a road connecting Koloa Town and Poipu Road at a cost of $7.5 million. The road will be located on the east side of Poipu. Construction of the lower side of the road will begin in the second half of 1992 and should be completed in 1993. Construction of the upper half should start during the latter part of 1992.

Electricity sales increased by eight percent in 1991 and are forecasted to increase by four percent in 1992. Kauai Electric should complete the installation of two 7.8 mw diesel generators at Port Allen by the end of the year. No further generating units will be allowed there, and the utility is exploring other sites in the Lihue area. Kauai Electric began an $18-million project to reconstruct its backbone transmission system from Port Allen to

Wainiha. Recently, the utility filed a 19.6-percent rate increase application with the Public Utilities Commission, which if approved, will be the first general rate increase since 1981.

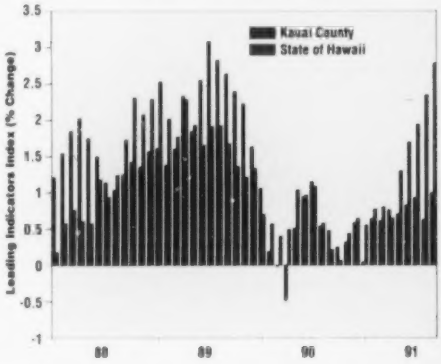
Kauai will have $3 to $4 million in capital improvement projects in 1992. Overall, Kauai has been experiencing a mild drought, and the water levels of some sources have dropped. Over the next two years, four more water sources should be developed for Lihue alone. Wells will be drilled and tested at Hanapepe, Puhi, Kalepa and Wailua, and water sources developed at Kalepa, Koloa and Puhi.

Outlook. Kauai County's index of leading economic indicators illustrates a positive growth trend similar to the State's. While most sectors of the economy are slowing, the index indicates that the slow down should be a soft landing. The only consistent source of weakness for Kauai is in the building permit component. Construction helped fuel Kauai's recent economic growth, and now it will slow down the fastest until some of the major residential projects get well underway.

Another near term concern is tourism. The current visitor count cannot support the existing hotel inventory. Hotel development plans will likely be in a holding pattern until the inventory can be absorbed.

The County Administration's policy of "Keeping Kauai Kauai," calls for planning growth carefully to preserve the natural environment—that is, the wild coastline, open spaces, and vistas and views which maintain the rural ambience of the County. This policy will initially cause slower economic growth, but the Administration does not see it as anti-growth. Kauai's tourism niche depends on the rural ambience, and every part of the island caters to the visitor in search of a slower-paced vacation.

Kauai County Leading Indicators vs. the State of Hawaii



Kauai County Statistics

	Unit	Period	1986	1987	1988	1989	1990	Jan.-Oct. 1991	% Change Jan.-Oct. 1990/1991	% Change Annual 1989/1990
Population, Resident	Number	July 1	45,400	46,900	48,100	49,700	51,500	NA	NA	3.6
Civilian Labor Force	Number	Mo. Avg.	23,400	24,900	26,300	27,350	28,400	30,200	6.9	3.8
Employment	Number	Mo. Avg.	22,000	23,850	25,350	26,550	27,350	29,200	7.4	3.0
Unemployment	Number	Mo. Avg.	1,400	1,100	950	800	1,000	1,100	4.8	25.0
Unemployment Rate	Percent	Mo. Avg.	5.9	4.3	3.7	2.9	3.6	3.7	0.0[1]	0.7
Total Job Count[2]	Number	Mo. Avg.	21,200	22,450	24,250	26,600	28,000	29,300	5.0	5.3
Gross Business Receipts	Mil. $	Total	739.2	776.9	777.1	802.6	953.1	737.7	3.5[3]	18.8
State Tax Collections[4]	Thous. $	Total	43,420	47,454	55,252	56,640	61,191	56,052	9.1	8.0
Estimated Westbound Visitors	Thous.	Total	1,014.7	1,032.8	1,043.7	1,138.2	1,118.9	916.3	-4.3	-1.7
Estimated Eastbound Visitors	Thous.	Total	NA	NA	NA	153.0	167.4	139.7	0.0	9.4
Hotel Inventory	Number	Feb.	5,922	5,956	7,180	7,398	7,846	NA	NA	6.1
Hotel Occupancy	Percent	Mo. Avg.	76.4	74.2	66.9	71.1	67.6	58.9	-10.2[1]	-3.5
Construction Put in Place	Thous. $	Total	35,959	46,450	56,811	69,872	95,206	74,707[3]	6.3[3]	36.3
Private Permits	Thous. $	Total	93,475	103,420	213,849	178,688	240,410	111,534	-38.3	34.5
Residential Permits	Thous. $	Total	42,046	63,742	90,887	138,924	177,213	75,363	-37.8	27.6
Non-Residential Permits	Thous. $	Total	51,429	39,678	122,962	39,764	63,197	36,171	-39.3	58.9
Public Contracts Awarded	Thous. $	Total	13,065	21,383	23,761	35,655	50,366	42,062	-14.2	41.3
Real Estate Resales										
Single Family	Number	Total	162	184	200	266	237	120	-40.3	-10.9
Average Price	Dollars	Cum. Avg.	142,371	149,587	210,761	239,646	321,748	307,604	-5.5	34.3
Condominium	Number	Total	170	214	265	265	236	110	-47.4	-10.9
Average Price	Dollars	Cum. Avg.	104,167	123,656	132,846	158,236	176,053	197,375	10.2	11.3
Sugar Production,										
Raw Sugar 96°	Thous. Tons	Total	241	229	228	211	200	157	-14.5	-5.2
Diversified Crops/Livestock	Thous. $	Total	11,656	12,337	13,034	13,391	12,876	NA	NA	-3.8
Crops	Thous. $	Total	6,452	7,264	8,273	8,631	7,867	NA	NA	-8.9
Livestock	Thous. $	Total	5,229	5,073	4,761	4,760	5,009	NA	NA	5.2

[1]Incremental change. [2]Refers to number of jobs rather than number of persons employed. Persons with more than one job are counted more than once.
[3]Jan. to Sept., 1991 [4]Totals do not include real property taxes. NA = not available

SUPPLEMENT TO ECONOMIC INDICATORS

Honolulu County Profile

First Hawaiian Bank Research Department May/June 1992

Honolulu County in 1992

Honolulu County is a major source of economic strength in what could otherwise be a recession year for Hawaii. A strong Honolulu eastbound tourist market, which is six times larger in visitor count than the largest neighbor island eastbound market, helps keep county economic activity growing. Nevertheless, the diminishing size of industries traditionally not impacted by economic downturns—sugar and defense—means that Honolulu and the state are becoming more sensitive to national and international business cycles.

Honolulu sets the pace for employment. With a 2.9% average unemployment rate through April, unemployment in Honolulu is almost one-percentage point lower than the overall state average. While some slack has developed in the labor market, the low unemployment rate can be partially attributed to multiple job holdings. Yet, Honolulu still has experienced about a 1% increase in total jobs recently, and any increase in jobs suggests a still expanding economy.

Visitor Industry. The two major issues for the visitor industry concern westbound tourism. A still anemic national economy is taking its toll on this important market, and there are fears that the traditional westbound market is well into its maturing phase of growth. Westbound tourism through April is 9% below the 1991 level, and 17% below the first four months of 1990. On the other hand, eastbound tourism is above both the 1990 and 1991 levels, recording gains of 37% and 12%, respectively.

The weak westbound visitor market and Persian Gulf War affected hotel occupancy rates last year (see chart 1). However, current hotel occupancy rate statistics show a moderately good year for Oahu tourism. Through April, visitor accommodations on Oahu averaged an 81% occupancy rate. Similar figures on the neighbor islands indicate occupancy rates ranging from the low to high 50% range.

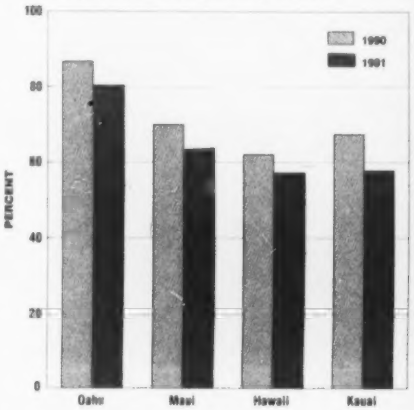
The growth trends of the westbound and eastbound markets are reflections of the visitor industry of the past few years. Last year, the eastbound market was primarily impacted by the Persian Gulf War, but the westbound market was on a downswing well before the war. While the start of the national recession was dated July 1990, the nation was in a "rolling recession" since the second quarter 1989. Approximately one-third of our westbound visitors are from California. Considering that California has been impacted greatly by the recession, a quick turnaround in the westbound market is not expected.

A strong Honolulu eastbound tourist market . . . helps keep county economic activity growing.

The outlook for eastbound travel to Honolulu remains bright. The majority of potential Japanese visitors should not be impacted by recent stock market declines. Overall, the Japanese visitor market still remains healthy because Waikiki is an urban resort, allowing for such diversified activities as shopping, relaxing at the beach, and dining.

For the near term, the visitor industry will be at a crossroad. The current westbound make-up is about one-third first time visitors and two-thirds repeat visitors. Considering that Waikiki and other Oahu visitor attractions are better suited for the first-time visitors, declines in the first-time travelers will impact retail sales, hotel occupancies, and visitor attractions. Repeat visitors are more experienced shoppers, tend to look for more moderately priced accommodations, and may bypass some visitor attractions. Even in the high spending Japanese visitor market, there is a trend towards more value-based shopping.

Chart 1
Hotel Occupancy Rates



To increase the number of first-time visitors, the Hawaii Visitors Bureau (HVB) is emphasizing its marketing on other non-westcoast U.S. markets, Western Europe, and the fast-growing Asian markets. The HVB is directing its advertising to compete with Mexico's visitor industry for a larger share of American visitors. Also, the HVB recently opened a representative office in Brussels in order to have better access to the countries of the emerging European Community.

Construction. Oahu construction is slowing down after several years of phenomenal growth. Last year, construction put- in-place increased by

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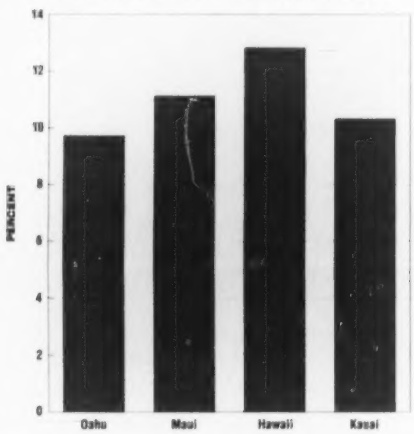
4% to $3.6 billion, but through March 1992, activity was down by 4%. Because Oahu is relatively less dependent on construction compared to the neighbor islands (see chart 2), decreasing activity statewide will impact the neighbor islands relatively more. Considering projects under construction or being planned, residential and public works construction should fuel the industry for at least the remainder of this year.

In spite of the expectations for residential construction, permit figures to date tell a different story. Through April, private residential permits amounted to $231 million, down by

Chart 2
1991 Construction Activity
As Percent of Gross Business Receipts



51%. Private non-residential permits fell by 49%, to $115 million. However, public contracts awarded were up by 53% to $396 million.

Much of Oahu's housing developments are on the Ewa Plain and Central Oahu. Construction of Village III of the state's Villages of Kapolei (300 single-family units and 88 multi-family units) should start this summer. Village II (300 units), should also start this year. Off-site infrastructure for Villages II and IV to VIII is being completed. In addition, West Loch Fairways, being developed by the City & County and Westlock Inc., is under construction for 451 affordable and 402 market-priced units.

In addition to these government involved projects, the Gentry Companies are planning to build 1,000 homes this year and next. Construction this year includes the 279-unit multi-family Arbor at Ewa, 250 units of the single-family Sun Terra, 408 units of the Geiger Road Apartments, and 140 units of the Unity House multi-family rental project. Schuler Homes, Inc. is completing the 80-unit Parkview and 136-unit Hookumu at Waikele. Castle & Cooke Residential, Inc. is developing the first phase of Mililani Mauka at a 500-unit rate per year. Sunset Pointe at Waikele is under construction for 251 units.

Ewa will soon come into its own as an integrated community. A major commercial project to support the residents of the area is the Kapolei Shopping Center with an expected completion date of February 1993. Other projects include the first city block where two office buildings ai under construction, with planned completion in 1993. Two other commercial projects with expected ground-breaking next year include an office building and a school.

One of the more active redevelopment areas on Oahu is Kakaako, where residential and commercial developments are replacing industrial enterprises. A major development is Nauru Towers. Phase I was completed in February, and construction of Phase II (mixed use, 400-plus unit residential) and its 170-unit reserve affordable housing project are starting this year with completion expected for early 1995. Kakaako developments being completed this year include the Imperial Plaza project (206 residential units and 50 commercial units), the state's Pohulani Elderly project, and the Na Lu Hulu rental project. Construction should start this year on the state's 268-unit Kauhale Kakaako project. Ground breaking should take place this year for the 267-unit Queen Emmalani Towers.

Honolulu's office vacancy rate has been low for a number of years. In 1992, three projects are scheduled for completion which will help relieve the tight market, Alii Place and First Hawaiian Tower in downtown, and 1601 Kapiolani in the Kapiolani Corridor. Over the next few years, 1100 Alakea Plaza and Harbor Court, both in downtown, should be completed. These five projects will add well over one million square feet of office space to Oahu's market.

For calendar year 1992, there are $119 million in approved and planned public works projects, and for fiscal year 1992/93, the capital improvement project budget is expected to almost double to $185 million. Some of the larger projects planned for or under construction this year include phase 2 of the Sand Island Wastewater Treatment Plant for $40 million and the Nimitz Highway Reconstructed Sewer project for $12 million. Overall, there will be $150 million in wastewater projects, with the bulk spent on secondary treatment facilities at Honouliuli and Waianae; construction on those projects is expected for early 1993.

The City's rail transit project must clear several hurdles before construction can start. The first is having Council approval for the 0.5% addition to the general excise tax and for the Council to adopt a resolution for full funding with the Federal Transit Administration (FTA). Upon the Mayor and FTA's agreement to execute funding, the system contractor will then be issued notice to proceed. The Research Department estimates that implementation of this project could increase general construction activity over that which would occur otherwise by as much as eight percentage points in its first year of construction.

Despite a slowdown in tourism, the Honolulu International Airport is now the ninth busiest in the nation and the third busiest in international traffic. Airport construction is a major source of activity this year and is one of the public sector projects targeted by the state's accelerated public construction program to offset a slowdown in the economy. Airport expansion should last through 1995 and cost $1.3 billion. Current projects include constructing a people mover and a new cargo city at Ualena Street. The cargo city is expected to be completed next year, and will initially serve four carriers that will be displaced in order to make way for construction of a new international terminal.

Another infrastructure project is the H-3 Freeway. So far, about 40% of the freeway is completed. Expected completion of the freeway is around 1995.

There are a number of other construction projects in the planning stage. A major long-term project being planned in a joint effort by the state and the City & County is the Pawaa Redevelopment Project. This mixed-use project will feature 2,140 residential units, 145,000 square feet of retail space, 100,000 square feet of office space and 15,000 square feet of community space.

The redevelopment of Honolulu Harbor also remains in the planning stage.

The slowdown in construction is inevitable considering the high growth rates of past years, but there are still enough projects being constructed or planned to prevent major job declines in the industry. Tremors in the Japanese stock market and fundamentals of the Japanese economy have impacted the financing of some major Japanese projects on Oahu. From now, Japanese financing will be under-written more on a cash-flow basis than on an asset-growth basis, which will lessen the overall volume of Japanese capital flowing into the islands.

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Agriculture. Statewide, agriculture has been impacted by increased competition from the marketplace and urbanization pressures for its land. The big news is Dole Food Co.'s layoff late last year of about 450 cannery workers at its Honolulu operation. Its Lanai plantation is being phased out in favor of resort operations. This phase-out leaves Wahiawa as Dole's only pineapple cultivation operation in Hawaii.

At Del Monte, fresh pineapple shipments to the mainland have been lower due to the recession. However, acreage devoted to pineapple cultivation should increase through the near-term.

At Oahu Sugar Co., increasing need for urban lands has reduced its acreage from over 20,000 acres in the early 1970s to 10,800 acres today. Its production for 1991 was at 68,265 tons, the third highest of 12 Hawaii plantations. Production is expected to decrease to 62,800 tons this year.

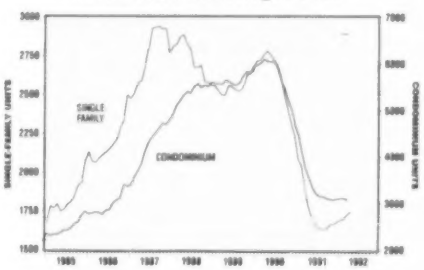
Waialua Sugar Co. is expecting about a 10,000-ton increase in production this year to 68,000 tons. More productive cane varieties led to this increase. Next year, Waialua expects a further increase to 71,000 tons.

Real Estate. Based on the number of units sold, Oahu real estate resales seem to have bottomed out (see chart 3). Recent declines in interest rates help spur a market that was impacted by the natural ending of the real estate cycle upswing, concerns of national economic conditions, the Persian Gulf War, and reduced Japanese investment. The upward cycle in resales lasted for about six years, and it is expected that the market will remain flat at least through the next several years. Overall, the real estate market has been in a down cycle since mid-1990.

Most of the softness in real estate prices has been at the luxury end. Through April, the average price of a single-family home decreased by 11% to $432,260, while the average condominium price increased marginally to $215,683. Oahu's pent-up demand should keep a floor under the more moderately price units.

Despite recent deflationary trends in real estate, this pause is a return to a more healthy market for residents. Honolulu remains one of the most expensive metropolitan areas nationwide in which to own a home, and the current softness brings real estate within closer reach of residents. The pent-up demand will prevent the deflationary spiral that still plagues many U.S. mainland areas.

Chart 3
Oahu Real Estate Resales—
12 Month Moving Total



Retail Trade. Retail trade has been impacted by pessimism about the state economy and a general shift towards moderation in buying habits. Retail sales on Oahu for last year increased by 3% to almost $12 billion. New retail car sales were down by 5% for 1991, and so far through March, car sales were down by 15%.

For the near term, the industry will undergo a transition in which traditional local retailers, who typically compete more on service, will have to compete on price. On the heels of the successful Costco retail outlet at Salt Lake, other value-driven retailers are entering the market. The overall impact should be favorable to residents.

The retail environment is also changing in the visitor industry. While there was a healthy increase in the per day expenditures of the Japanese visitors, their purchases of luxury items are moderating. Also, a greater share of repeat westbound visitors means that retailers who compete for the first-time visitors will have to reposition themselves to cater to more sophisticated travellers.

Major retail construction on Oahu includes a planned expansion of Ala Moana Center, and developments of the Hawaii Power Center at Pearl City, the Waikele Center at Central Oahu, the Kapolei Shopping Center at Ewa, and the Hawaii Kai Town Center in east Oahu. The creation of additional retail space will put added pressure on Oahu's tight labor market. For 1991, retail generated 83,500 jobs on Oahu, a marginal decline from 1990's level of 84,000 jobs. However, this decline was partly a reflection of some softening in the economy, and major retailers still consider themselves to be short in labor.

Defense. This year, defense industry watchers can only speculate on the outcome of next spring's announcement of defense cutbacks and base closures. While Hawaii has been spared major reductions, future cutbacks are possible. The First Marine Brigade at Kaneohe and the 25th Infantry Division at Schofield are the most costly to operate in the nation due to Hawaii's high cost of housing. This factor naturally draws attention to Hawaii-based forces.

Another uncertainty in the defense sector is the long-term future of the Pohakoloa Training Camp on the Big Island. Without a training area, there would be less reason to have a large Marine and Army presence in the islands. A near-term concern is adequate compensation for about 300 acres of Hawaiian Homes Land that is on the eastern perimeter of the camp.

The military makes up a large part of Hawaii's population, and most work out of Oahu. As of December 31, 1991, Hawaii had 55,543 active duty personnel and 68,876 military dependents. There were also 26,389 civilians employed by the defense industry. The Hawaii National Guard and reserve units added another 12,695 personnel.

The economic contributions of the military are substantial. Estimated

fiscal year 1991 expenditures were $3.5 billion. The military's economic impact relative to other growth sectors has been declining. But the absence of military personnel and dependents during the Persian Gulf crisis depressed businesses around Kailua and Kaneohe, which drew attention to the importance of this industry.

Conclusion. This year, Honolulu is at a crossroads as it searches for new visitor markets, braces for a possible reduction in the military presence, and watches the continued threats to its once massive agricultural industry. There is reason for concern as the decline in westbound tourism and the winding down of construction take their toll on the economy. Nevertheless, Honolulu County is holding its own much better than the economies of the neighbor islands.

While 1992 is likely to begin a period of consolidation for Honolulu, these can also be looked upon as stimulating times. Growth in Japanese tourism reaffirms that the eastbound market is a major source of diversification for the economy. Also, projects that were once just plans for Ewa and Central Oahu are now coming to life. Imbalances that worsened during the boom years—such as tight office and housing markets—are now easing. While construction is slowing, corrections in shortfalls of the past are themselves sources of activity.

So far, Hawaii has not entered recession. Statewide, jobs are being created, which would not be consistent with an economy in recession. Considering that Honolulu generates about three-fourths of all economic activity in the state and that some neighbor island economies could be touching recession, this speaks well for Oahu. Honolulu's economic diversity has given it resiliency.

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HONOLULU COUNTY STATISTICS

	Unit	Period	1987	1988	1989	1990	1991	Jan.-Apr. 1992	% Change Jan.-Apr. 1991/1992	% Change Annual 1990/1991
Population, Resident	Number	July 1	823,800	832,500	834,900	826,200	838,100	NA	NA	1.4
Civilian Labor Force	Number	Mo. Avg.	383,400	384,100	384,500	392,300	403,500	403,850	1.1	2.9
Employment	Number	Mo. Avg.	369,850	373,500	375,950	382,300	394,200	392,300	0.5	3.1
Unemployment	Number	Mo. Avg.	13,550	10,600	8,550	10,000	9,300	11,500	27.0	-7.0
Unemployment Rate	Percent	Mo. Avg.	3.5	2.8	2.2	2.6	2.3	2.9	0.6**	-0.3**
Total Job Count[1]	Number	Mo. Avg.	391,800	404,550	421,600	441,050	445,100	447,750	0.6	0.9
Gross Business Receipts	Mil. $	Total	23,618	26,875	30,853	35,510	36,726	9,409[2]	1.1[2]	3.4
State Tax Collections[3]	Mil. $	Total	1,654	1,832	2,112	2,256	2,399	833	1.9	6.3
Visitor Expenditures	Mil. $	Total	NA	NA	5,163.1	5,441.1	5,353.2	NA	NA	-1.6
Estimated Westbound Visitors	Thous.	Total	3,078.5	3,013.9	3,205.8	3,171.6	2,899.2	838.3	-9.2	-8.6
Estimated Eastbound Visitors	Thous.	Total	NA	NA	1,843.6	2,179.3	2,149.4	771.2	36.7	-1.4
Hotel Inventory	Number	Feb.	38,185	37,841	36,467	37,270	38,022	NA	NA	2.0
Hotel Occupancy	Percent	Mo. Avg.	86.8	85.4	86.3	86.6	80.3	81.4	7.7**	-6.3**
Construction Put in Place	Mil. $	Total	1,730	2,164	2,741	3,415	3,566	877,334[2]	-3.6[2]	4.4
Private Permits	Thous. $	Total	754,043	765,234	973,655	1,021,627	1,520,247	346,345	-50.3	48.8
Residential Permits	Thous. $	Total	390,505	429,367	514,046	599,801	985,814	230,939	-51.1	64.4
Non-Residential Permits	Thous. $	Total	363,538	335,867	459,609	421,826	534,433	115,406	-48.7	26.7
Public Contracts Awarded	Thous. $	Total	292,689	474,879	601,863	566,383	565,767	396,244	52.8	-0.1
Real Estate Resales										
Single Family	Number	Total	2,773	2,567	2,652	2,229	1,687	465	15.1	-24.3
Average Price	Dollars	Cum. Avg.	278,296	316,957	376,710	490,984	441,277	432,260	-11.1	-10.1
Condominium	Number	Total	4,721	5,538	5,813	5,036	3,114	792	-0.4	-38.2
Average Price	Dollars	Cum. Avg.	126,358	137,449	167,129	228,100	221,285	215,683	2.7	-3.0
Sugar Production, Raw Sugar 96°	Tons	Total	159,309	140,551	146,084	139,480	125,770	13,613	32.8	-9.8
Pineapple Sales, Fresh Equivalent	Thous. $	Total	52,920	68,261	65,447	62,280	NA	NA	NA	NA
Diversified Crops/Livestock	Thous. $	Total	78,318	76,347	78,723	82,003	NA	NA	NA	NA
Diversified Crops[4]	Thous. $	Total	32,664	30,662	32,661	36,819	NA	NA	NA	NA
Livestock	Thous. $	Total	45,654	45,685	46,062	45,184	NA	NA	NA	NA

***Incremental change [1]Refers to number of jobs rather than number of persons employed. [2]January to March. [3]Totals do not include real property taxes.*
[4]Total crops excluding sugar and pineapple. NA=not available

SUPPLEMENT TO

ECONOMIC INDICATORS

Maui County Profile

First Hawaiian Bank Research Department July/August 1992

Maui County in 1992

With economic growth clearly slowing down, there is a general feeling throughout Maui that now is the time to play "catch up." It is hoped that slowly but surely visitor count will catch up with hotel inventory, and that infrastructure improvements can now catch up with the explosion in development. Indeed, some are actually looking forward to what they see as a time of slower but more manageable growth.

Presently, trouble in Maui's two largest industries, tourism and construction, has manifested itself in higher unemployment. In the long run, however, the trouble can instead be viewed as an opportunity ... to revamp Maui's image and to focus on improving roadways, expanding water and refuse capacities, and other public projects.

Visitor Industry. Maui hosted 2.3 million visitors in 1991, a 2.4% drop from the previous year. However, those visitors stayed 1.9% longer and spent $2.4 billion, 13.1% more than in 1990.

Unfortunately, 1992 gains are falling short of post-Gulf War expectations in the wake of the struggling economies of both the U.S. mainland and Japan. Total visitors to Maui through June, although up 1.4% from 1991, was actually 4.3% lower than in 1990. Moreover, first quarter 1992 visitor spending statewide is down from 1991, with a greater decrease in the westbound market. Emerging theories suggest that the lack of a rebound in the visitor industry to more normal levels indicates structural and therefore more permanent market changes.

Falling occupancy rates present another red flag. After peaking at 81.5% in 1986, average occupancy has dropped to 63.4% in 1991 (see Chart 1). In 1992, the rate has fallen even further to an anemic 60% through June. Occupancies on Lanai and Molokai are perceived to be even more dismal.

While hoteliers are trying to avoid the risks of discounting rates, they see an alarming shortening in the lead time between bookings and actual stay. Furthermore, summer reductions in airfares across the mainland, declining airline seat capacity to Hawaii—down 11.2% through June in the westbound market—and a smaller pool of higher spending first-time visitors all foretell greater challenges facing the industry.

Chart 1
Maui Hotel Occupancy Rates

In terms of the economy, extending the airport runway would enhance many sectors to varying degrees.

A concerted effort is already underway to meet these challenges. Both public and private resources have been committed to diversification through expansion of target markets. Recent successes with large conventions in Wailea and incentive groups in Kaanapali have demonstrated the viability of the meeting-convention-incentive market.

The Kaanapali Beach Hotel is targeting the first quarter of 1994 for completion of its expansion which, aside from adding 215 more rooms and 60% more retail space, will double its meeting facilities. The Ritz-Carlton Kapalua, when it opens in November 1992, will provide 30,000 square feet of conference space including a 15,750 square-foot main ballroom and a 165-seat theater.

The four hotels in Wailea—Grand Hyatt Wailea, Four Seasons, Maui Inter-Continental and Stouffer Wailea Beach— which together boast the largest convention space in the state, are already anticipating the return of such large groups as Coca-Cola and the National Association of Chain Drug Stores in the next few years.

Other diversification efforts run parallel to the state's in that more attention is being concentrated on the buoyant eastbound market and the relatively untapped European portion of the westbound market. Maui Visitors Bureau has formulated a 3-pronged strategy—video news releases, promotion in the convention market and a stronger public relations effort. The activities Maui has to offer appear to be very popular this year; expansion plans at Maui Tropical Plantation and incorporation of the latest technology in the tour boat industry aim to broaden appeal.

Maui County still faces the issue of whether or not to extend the 7,000-foot runway at Kahului Airport. In terms of the economy, extending the airport

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runway would enhance many sectors to varying degrees. Clearly, the greatest direct impact would be felt by those in the visitor industry, especially if the airport were set up to process international visitors.

An extension of the runway to 9,600 feet would purportedly allow direct access from such vital markets as Japan and the midwest. Non-stop flights to and from Japan would put Maui in a better position to compete in the strong eastbound market. At the same time, direct flights from midwestern hubs would give Maui the chance to make inroads into a part of the westbound market other than California, and thus more effectively compete against the Caribbean and Mexico. And direct flights from the midwest would yield greater opportunities with respect to the European market by minimizing the number of stops the European visitor must endure to get to Maui.

The easing of cargo restrictions and addition of direct flights expected to result from extending the runway would also benefit established industries such as agriculture, as well as forays into new industries such as high technology. While economic effects, whether direct or indirect, are clearly positive, other aspects of the runway extension are less so, and residents are slowly moving toward resolution of this issue.

Emerging theories suggest that the lack of a rebound in the visitor industry to more normal levels indicate structural and therefore more permanent market changes.

Construction. The hotel construction moratorium, imposed on West and South Maui both by the county and by the internal workings of the industry itself, has contributed to a dearth of construction jobs—leading to an outflux of workers and numerous layoffs. Although construction put-in-place increased 9.2% in 1991 to $284 million, 1992 figures tell a different story. Through May, construction levels measured $108 million, a 10.5% drop from the same period last year.

Public contracts awarded are also down from last year, 54.8% as of June. This appears to be a trend started in 1991, when public construction fell 56.6% from 1990 to $66.5 million. Thus public projects appear to have reached a plateau, illustrated in Chart 2, with respect to total building permits issued.

Construction has begun on the Maui Community Arts and Cultural Center—a joint effort utilizing federal, state, county and private resources; $22 million has been raised to date with about $4 million more needed for completion in the first quarter of 1994. The center will house a 1,200-seat main theater, art gallery, amphitheater, office space and other facilities.

Among the county's current projects are: a 62-unit residential project in Lahaina; a $0.75 million youth center on Molokai; the Lahaina Aquatic Center; and the $5.5 million Kahaleakeola Resource Center, developed by Maui Catholic Charities to offer housing and other services for the homeless. The county has also slated for next year a $3.5-million project for fire stations in Kula and Hana. The county's $3- million, 20,000-square-foot Upcountry Community Center has just been completed. In keeping with the county's policy of emphasizing private sector involvement in single family affordable housing development is the creation of Maui Community Affordable Housing Corporation, which will act as facilitator to stimulate new project development.

The State Housing Finance and Development Corporation (HFDC) continues with its share of projects. The first homes of the 4,200-unit Lahaina Master-Planned Community should be available early next year.

At the Waiehu Terrace project (increment A), construction on Hale Mahaolu Ekolu—42 units for senior citizens—should be completed by the end of the year. Also in increment A, 14 self-help units have entered the construction phase. Increment B, consisting of 139 affordable, and 93 market rate, single family residences has also been completed, with Ohbayashi Hawaii Corporation/JDH Inc. selected to develop the multifamily units. HFDC is in the planning stage with its 50-unit Niumalu project in Hana.

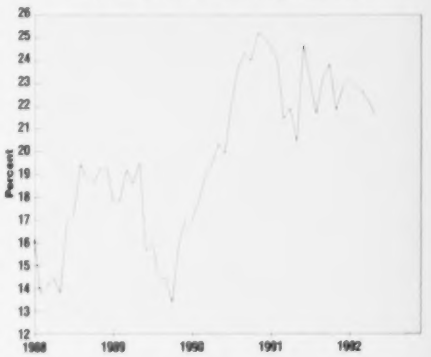
A&B Properties, Inc. has completed development of its 37-lot agriculture subdivision at Haiku Hill and its 11 residential lots at Store Village in Kahului. Kahului Town Terrace, a 72-unit project developed with HFDC has also been completed. Construction should start later in the year on its 100-lot Makana project, a joint venture with Gentry in Paia.

A&B is planning to put an office building on the top lot of its triangular airport industrial subdivision; more commercial space may be added later. Also near the airport, A&B has plans for 76 more acres of light industrial area pending rezoning from the county.

C. Brewer Properties is working toward obtaining the necessary approvals for two projects. The 547-acre Wailuku Project District will be self-contained, include 20 acres of commercial area and accommodate approximately 2,400 homes. The 79-acre Piihana Project District will include approximately 600 homes. C. Brewer is also proposing, along with Schuler Homes, to build 480 affordable multi-family units on about 30 acres of light industrial/apartment- designated land in Wailuku.

Herbert Horita Maui's Ka Ono Ulu project in Kihei is now under construction. This project includes 348 multifamily and 256 single family units for a total of 604 units, 100 of which will be affordable. Horita is also working in partnership with Mills Dowling on Maui Lani, a 970-acre master planned community including golf course, commercial area and schools, where construction is expected to start by the end of the year and take up to two decades to complete.

Chart 2
Public Construction Awards
As a % of Total Building Permits



Water supply remains a source of concern for the county, especially with the recent lack of rainfall mandating restrictions. Work has begun on two

surface water treatment plants: the Kula plant, which will average six million gallons per day (mgd) with a 9-mgd peak; and the Mahinahina plant, which could average 2.5 mgd with a 4-mgd peak.

By next year, $12 million is expected to have been expended on the East Maui system, the main portion of which is the pipeline, in order to supplement the Iao aquifer. The 10-year plan, at a projected cost of $50 million, calls for drilling wells into the side of Haleakala. The county is also considering installation of boosters as back up for the Upcountry system. Plans for wells and improvements in West Maui were postponed due to the landslide in Kanaha Valley earlier this year.

The county also faces a cost of $51 million through 1996 to close its five landfills and construct two new ones—one each on Lanai and Molokai. The sewage treatment plant in Kahului is currently undergoing expansion from 6.8 mgd to 7.9 mgd.

Plant expansions are also planned for Kihei and Lahaina. At Kihei, capacity would be increased from 6 mgd to 8 mgd, and the project should be completed by 1995. The Lahaina project now out for bid would add 2.3 mgd to capacity. Maui has just begun working with the state on the possibility of a Central Maui treatment plant on 50 acres near the old Puunene airstrip to provide for forecasted growth in the Kihei and Kahului areas.

Maui Electric Co. (MECO) is also preparing for forecasted growth. A decision will be made soon on whether to install another generating site in Central Maui, to replace the old units at Kahului with more efficient ones, or to continue expanding at Maalaea, in order to meet projected annual increases in the range of 6-7%.

MECO continues to evaluate options such as purchasing power generated by the Zond windmills at Wai A Kanapo Point (which account for 2-5% of Molokai's power), and promotion of conservation efforts, e.g., a pilot program offering rebates to commercial customers. MECO is also considering the addition of two or three major transmission lines to maintain reliability to Upcountry and West Maui.

Real Estate. Following a decade of growth, the real estate market has remained soft since 1991. Through June 1992, single family resales are down 48% and average price is down 50% from two years ago. Condo resales meanwhile have dropped off dramatically from June 1990 by 171%.

Retail. While retail sales on Maui fell 12.4% to $835.6 million in 1991, physical expansion continues throughout the industry. Plans for Kaahumanu Center include another department store, multiplex cinema, parking structure, food court, and an additional 100,000 square feet of mall shops—including both national and local tenants. Construction is expected to start at the beginning of 1993 and run through mid-1994.

Consolidated Amusement Company has announced plans for a 4-screen theater at Kukui Mall. Whalers Village began a $4.5-million renovation project last year and construction at Maui Mall should begin this summer for a new Wendy's so that it will be open for business next year. The Wailea Resort Company is also considering expansion of its shopping center.

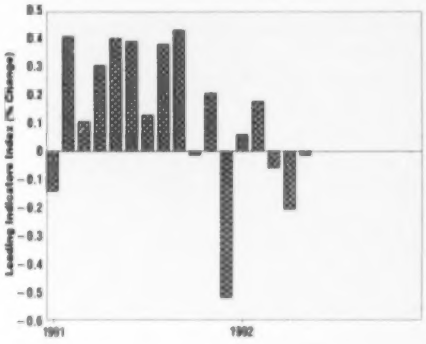
A&B has signed a 20-year lease agreement with Kmart for 7.5 acres at Dairy Road and Hana Highway. The project is expected to open next summer, at which time 107,000 square feet of retail space will be added on Maui.

If recession does come to the state, Maui will be the first of the four counties to be affected.

Agriculture. Maui's sugar production in 1991 was 240,035 tons. This 10% drop from 1990 was due to decreases of 5% and 38% at Hawaiian Commercial and Sugar Co. (HC&S) and Pioneer Mill Co., respectively. HC&S is still contending with losses attributable to the corn borer. Some harvesting has also been foregone in order to allow crops to age. In addition, HC&S has only been receiving about half of the normal water supply from East Maui for irrigation and therefore has temporarily halted planting. Thus the 1992 crop is expected to be smaller as well—already down 7.6% through May.

Just as worrisome for sugar companies is the current round of GATT negotiations, the outcome of which will affect their competitive position. In the meantime, HC&S is continuing its diversification experiments with byproducts. Coal is used for one-half of its boiler capacity and once permits are in place the other half will be switched to diesel. With the permit for cogeneration-facility construction and recent capital investment, HC&S has the ability to export more power if demand exists.

Chart 3
Maui County Leading Indicators



Recovering from fires in the factory control room and in the field last year, Pioneer Mill ended 1991 with a lackluster yield of 12.9 tons of sugar per acre. Although 1992 started off badly because of a carry-over of over-ripened fields, Pioneer is anticipating an annual yield of 14.3 tons. Through May, production stood at 13,465 tons, bringing total island production up 14% from May 1991. Drought conditions have already begun affecting yields this year, but the harm to next year's crop is expected to be worse. Pioneer is also continuing its experimental coffee crop.

After a couple of bad years, Maui Land and Pine ended 1991 with record high production levels; the outlook for this year is positive, too. Dole is proceeding with its planned phase-out of pineapple production on Lanai. Only about 150 workers remain for the last harvest this year, although some fields will be maintained for local consumption. Dole is experimenting with other crops such as hay to replace the pineapple in the fields. Wailuku Agribusiness continues to make improvements if not profits in both pineapple and macadamia nuts.

Maui and Molokai again led the state in production of fresh vegetables and melons in 1991. Although total harvested acres decreased by 4.6%, total

production increased by 4.9% to 47 million pounds, or 60% of state output. The Tedeschi pineapple wine is doing very well, especially in Japan and even in Europe. Maui's cattle industry is holding its own vis-a-vis the rest of the state. And a bright possibility exists, depending on timing and external environment, for entrance into the venison market.

High Technology. Six firms have already moved into the new $6-million Maui Research and Technology Center (MRTC). Baggerly & Associates, the largest, represents the successful cooperation of both public and private sectors to attract and develop new industries. The firm will aid in the creation of highly skilled job opportunities on Maui.

The 110 contracted employees of Rockwell Power Systems took over space surveillance and research activities—including the Strategic Defense Initiative's Relay Mirror Experiments—for the Air Force late in 1990. Construction should start in 1993 to add a 3.67-meter telescope adjacent to the observatory on Haleakala, at a cost of approximately $15-16 million.

Also expected in 1993 is the $19.5-million supercomputer, a massively parallel computer whose applications include image processing, animation, and systems simulation—which has proven very useful for environmental problems. Construction should start by early next year on the state-sponsored, $2-million telecommunications building right next to MRTC. Also at the Park is a 59-acre parcel being developed as a foreign-trade zone, one of five in the state, to promote economic development and international expansion.

The Outlook. With a collective rolling up of the sleeves, the people of Maui prepare for the hard work ahead. First Hawaiian Bank's leading index for the county logged its third consecutive decline in May which, according to conventional wisdom, portends a period of recession (see Chart 3). If recession does come to the state, Maui will be the first of the four counties to be affected.

Many have already intuitively recognized the economic ramifications of simultaneous downturns in the different sectors: tourism, construction, agriculture and retail. Nevertheless, there have been encouraging signs in non-traditional industries such as hi-tech and ocean activities. Diversification within the basic industries of tourism and agriculture may indeed help stave off the downward momentum and provide future stability.

MAUI COUNTY STATISTICS

	Unit	Period	1987	1988	1989	1990	1991	Jan.-June 1992	% Change Jan.-June 1991/1992	% Change Annual 1990/1991
Population, Resident	Number	July 1	89,800	92,500	96,600	101,200	NA	NA	NA	NA
Civilian Labor Force	Number	Mo. Avg.	51,600	52,750	55,550	57,700	60,250	63,050	6.8	4.4
Employment	Number	Mo. Avg.	49,350	51,000	54,100	56,050	58,250	59,800	4.5	3.9
Unemployment	Number	Mo. Avg.	2,250	1,750	1,450	1,450	1,950	3,200	80.4	34.5
Unemployment Rate	Percent	Mo. Avg.	4.4	3.3	2.6	2.8	3.3	5.1	2.1**	0.5
Total Job Count[1]	Number	Mo. Avg.	45,150	48,100	51,850	55,000	57,200	58,350	4.1	4.0
Gross Business Receipts	Mil. $	Total	1,816.3	2,100.1	2,143.0	2,548.4	2,563.5	1,085.3[2]	2.6	0.6
State Tax Collections[3]	Thous. $	Total	117,917	127,966	147,853	146,133	157,729	73,857	-9.2	7.9
Visitor Expenditures	Mil. $	Total	1,267.7	1,471.0	1,917.8	2,097.2	2,225.2	NA	NA	6.1
Estimated Westbound Visitors	Thous.	Total	1,908.8	1,884.1	2,113.1	1,995.2	1,934.7	919.0	-3.3	-3.0
Estimated Eastbound Visitors	Thous.	Total	NA	NA	400.9	394.8	387.4	225.1	26.4	-1.9
Hotel Inventory	Number	Feb.	13,849	15,168	16,008	18,169	19,132	NA	NA	5.3
Hotel Occupancy	Percent	Mo. Avg.	76.2	73.4	69.2	70	63.4	60.0	-3.2**	-6.6
Construction Put in Place	Thous. $	Total	100,731	145,706	190,407	260,318	284,223	108,011[2]	-10.5	9.2
Private Permits	Thous. $	Total	163,788	408,508	317,902	435,191	200,905	109,482	4.2	-53.8
Residential Permits	Thous. $	Total	106,743	175,650	210,377	208,977	132,946	68,806	3.0	-36.4
Non-Residential Permits	Thous. $	Total	57,045	232,858	107,525	226,214	67,959	40,676	6.2	-70.0
Public Contracts Awarded	Thous. $	Total	25,454	96,748	63,297	153,333	66,513	15,278	-54.8	-56.6
Real Estate Resales										
Single Family	Number	Total	435	501	509	529	48	196	-2.5	-22.9
Average Price	Dollars	Cum. Avg.	191,260	244,589	299,048	421,145	331,441	399,159	19.8	-21.3
Condominium	Number	Total	848	1,064	1,131	1,308	579	260	4.4	-55.7
Average Price	Dollars	Cum. Avg.	145,580	175,913	202,894	250,275	215,578	218,062	-2.6	-13.9
Sugar Production,										
Raw Sugar 96°	Thous. Tons	Total	300	293	272	267	240	70.5[2]	14.2	-10.1
Pineapple Sales,										
Fresh Equivalent	Thous. $	Total	46,366	39,141	32,863	36,975	NA	NA	NA	NA
Diversified Crops/Livestock	Thous. $	Total	33,451	32,600	33,779	37,913	NA	NA	NA	NA
Diversified Crops[4]	Thous. $	Total	22,860	23,437	25,518	29,079	NA	NA	NA	NA
Livestock	Thous. $	Total	10,591	9,163	8,261	8,834	NA	NA	NA	NA

***Incremental change [1]Refers to number of jobs rather than number of persons employed. [2]Through May. [3]Totals do not include real property taxes.*
[4]Total crops excluding sugar and pineapple. NA=not available

SUPPLEMENT TO ECONOMIC INDICATORS

Hawaii County Profile

First Hawaiian Bank Research Department September/October 1992

Hawaii County in 1992

The Big Island economy, with its characteristic diversity, has traditionally been protected from isolated threats. Although 1992 has been marked by major setbacks in two stalwart industries, agriculture and tourism, other sectors are holding their own. The real estate industry, which turned soft in 1991, shows signs of picking up again in 1992. And the government sector, especially in East Hawaii, will serve as a buffer for the entire county.

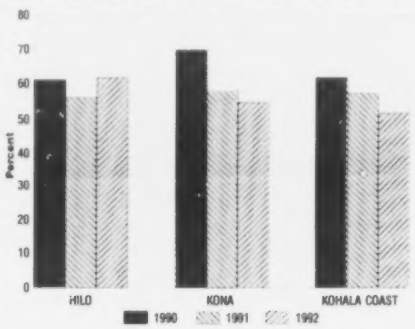
Employers who are fortunate enough to be hiring report a more than adequate supply of qualified workers and a stabilizing of their work forces, in the face of a jump in the umemployment rate to 9.1% in July. More dramatic was the 116% increase in bankruptcy filings through June 1992 over the same period last year.

However, people are still attracted to the Big Island by its open space, lifestyle and lower land prices. Unfortunately, the increase in population has yet to be comfortably absorbed, and it is a constant struggle to maintain an adequate infrastructure. Supplies of water, utilities, and affordable housing are being challenged, and county advisors have even resubmitted the idēa of a rapid transit system connecting East and West Hawaii.

Visitor Industry. In 1991, 1.2 million people chose to visit the Big Island, a marginal increase over the previous year. However, they stayed 9.7% longer and spent 17.8% more or $1.09 billion. These gains were the largest recorded by any county last year.

Yet the first seven months of 1992 show a 7.3% decrease in the number of visitor arrivals. This figure is comprised of a 10.4% fall in the larger westbound market and a 9.6% rise in the smaller eastbound market. Although an overdependence on the California market has been recognized, the Big Island has not been able to capitalize on the strong Asian market.

Chart 1
Hawaii County Hotel Occupancies



To assist the industry, over 600 TV commercials are being run to promote kamaaina travel to the Big Island. Those properties able to attract interisland visitors report a definite improvement in occupancy rates.

Pressure on the (visitor) industry is not expected by some to ease until 1994 at the earliest, by which time it is hoped the results from the changes in marketing strategies and general economic recovery should be apparent.

Many hotels have also chosen to discount rates in order to help fill rooms. This may prove to be an effective strategy in the short run, especially with the travelers' current search for "value." People are more interested in lower rates and package deals such as the inclusion of meals, golf and transportation rather than the high end suites. The industry will also likely see some future increase due to the recent lowering of airfares to Hawaii.

For the present, however, occupancy levels paint a grim picture, as illustrated in Chart 1. While Hilo hotels appear to be holding their own, Kohala hotels show the lowest occupancies and Kona hotels have felt the greatest decline. Many in the industry see this trend continuing at least through next year. Contractionary pressure on the industry is not expected by some to ease until 1994 at the earliest, by which time it is hoped the results from the changes in marketing strategies and general economic recovery should be apparent.

Other efforts are underway to diversify and strengthen the visitor base. Nascent industry subcategories are gaining support here, such as Hilo Main Street Program's proposal for Hawaii's version of cultural tourism aimed at preserving its plantation history. Ecotourism is also increasing in popularity due to raised environmental consciousness and a shrinking pool of sun-worshipers.

The visitor industry receives a boost every summer from the Hawaiian International Billfish Association tournaments. With an estimated 350 anglers this year plus their guests, the overall economic impact of the event could be in the $10-million range.

The Ironman Triathlon World Championship is another annual program that draws large pools of visitors to the Big Island. Last year

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almost 1,400 athletes from 49 countries participated. Since the Ironman attracts both local and national sponsors, the direct economic impact of this event should be over $20 million this year.

The only new resort construction to be seen is the Hapuna Beach Prince Hotel at the Mauna Kea Beach Resort. This self-contained project includes a 350-room hotel scheduled to open in April or May of 1994—10 years after the permit process was begun—with almost 15,000 square feet of conference facilities, an Arnold Palmer championship course scheduled to open in September, tennis courts, freshwater pool, and residential units. Under an agreement with the Queen Emma Foundation, Mauna Kea Properties plans to develop another 370 acres in South Kohala. Construction should begin on a Robert Trent Jones golf course there in 1993.

Phase I of Keahole Airport Development Projects, including runway improvements and extension to 11,000 feet, should be completed by September 1995. All three phases will extend beyond the year 2000 and carry an estimated total cost of $315.4 million. These airport projects provide a source of jobs for the construction industry, and foster anticipation of direct flights from Japan, which certainly lends hope to the troubled visitor industry.

Construction. Construction put-in-place slowed considerably through the first six months of 1992. Private permits issued through July are up, however, due to the Mauna Kea project discussed earlier. Public projects will also help to offset the 50% decrease in residential construction approved through July 1992.

Wastewater treatment and landfill closure projects in Kona and Hilo total more than $16 million. Construction is scheduled to start by October on the new $14-million landfill project at Puuanahulu. New police and fire department buildings will be built at a cost of $9 million. The county has about $5 million in well-drilling projects in Kona, and is seeking to develop a system to transport water to the dry coast of West Hawaii.

The $13-million Alenaio Flood Control program takes downtown Hilo areas out of the flood zone so construction can take place. As for roadway projects, the state will be spending $8.5 million on resurfacing and rehabilitation. The state has also just sponsored over $13 million on Kawaihae Harbor improvement projects, and will construct a research and technology park on 200 acres adjacent to the UHH campus.

Progress at the county's largest project, Waikoloa Village, suffered a setback this year when agreement could not be reached with one of the developers, but negotiations with other developers are continuing. In the meantime, the 177 units of the Paniolo Estates portion of this affordable housing project have been completed.

Agriculture on the Big Island is facing innumerable internal and external threats, from disease and pestilence, to drought and falling visitor demand, to changes in regulation and stiffer global competition.

W.H. Shipman Co. is proposing to develop 2,000 acres around Keaau. Shipman's master plan includes bypass roads, new county facilities, new schools, regional shopping center, low cost housing, golf course, and expansion of its industrial park. Although Shipman could be sold before project completion, no conflict is foreseen.

Nansay Hawaii has obtained permits to build six golf courses in Puako. Rezoning is now being sought to develop the rest of the 3,000-acre property. Nansay, together with the county and other private interests, just completed the 20-unit Kawaihae Transitional Housing Facility for the homeless. Its Kohanaiki Resort project is now in court, and its Ouli project, with permits to build a golf course and 40 to 50 5-acre lots should begin construction next year.

Chalon International of Hawaii, Inc. is concentrating on its Mahukona project, pending county approval. Chalon would like to integrate its nearby ventures in cattle, conservation, diversified agriculture, and wind energy into this resort community project.

Mauna Lani Resort has submitted plans to develop its 100-acre, $147-million Mauna Lani Cove project. Located between its two existing hotels would be: additional hotel units; global village comprised of a wellness center, conference center, marine science center, and commercial space; new beaches and park; man-made waterway; and residential units.

While retailing this year may not match the 4% increase registered in 1991, some plant construction is still occurring. Ground has been broken on Sure Save's $4.5-million office and distribution center project in the W.H. Shipman Industrial Park. Phase II of Lanihau Center in Kailua should open early in 1994, adding 250,000 square feet of retail space. Shopping center expansion in Keauhou is scheduled to begin this year, and the 24,000-square-foot Cost U Less is set to open in Hilo.

Agriculture. Agriculture on the Big Island is facing innumerable internal and external threats, from disease and pestilence, to drought and falling visitor demand, to changes in regulation and stiffer global competition. These problems highlight the changing profile of the industry.

Sugar production on the Big Island has decreased by 50% since 1982 (see Chart 2). Although production has been falling statewide, Hawaii was the only county whose share of state output showed a net decline, from 38% in 1982 to 25% in 1991. Through June 1992, production stood at 74,807 tons, a 12% decrease from the first half of last year and down another notch to 24% of state production. GATT negotiations and the North American Free Trade Agreement further threaten the declining industry.

Despite valiant attempts to save the sugar business at Hilo Coast Processing Co., C. Brewer & Co. announced its plans to close the plant in two years. Mauna Kea Agribusiness will now focus on its diversified agriculture operations, a path to be followed by some of the associated independent cane growers. While losses of $20 million over the past three years certainly seem daunting, so do the increased threats to the island's sugar industry with less shoulders now to share the burden, and the displacement of up to 450 employees in an already strained labor market. C. Brewer will continue its sugar operations at Kau Agribusiness.

Hamakua Sugar Co. has had, among its own problems, a boiler fire which

affected production for an entire month last year, and a Chapter 11 bankruptcy filing this August. Hamakua is currently producing slightly more than half of its breakeven target, while its $100-million debt is expected to be taken care of through the sale of its three development projects in Waipio, Laupahoehoe, and Pauuilo/Honokaa.

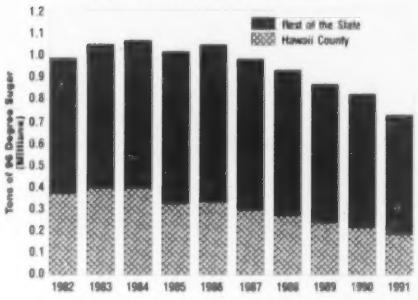
Lack of rain and pasture damage caused by the yellow sugarcane aphid have necessitated the costly use of supplemental feed on Big Island ranches, which account for 80% of production in the state. Thus cattle are being shipped at lower weights to Canada and the West Coast. The industry has meanwhile been shrinking to the precarious point of having only one commercial slaughterhouse remaining with plans to stay in business and retain control over the significant value-added process. Another concern for ranchers is the state's five-year boundary review, in which a change in designation from agriculture to conservation for over 135,000 acres on the Big Island is recommended.

The papaya industry suffered major production losses last year when the EPA temporarily disallowed the EBDC fungicide. As a result, output from the Big Island through July 1992 was 30% higher than in 1991. The industry now sees decreasing demand in Japanese and mainland markets—and even in the local visitor market—due to slower economic times. Puna growers are working together to minimize the damage caused by the papaya ringspot virus, even sacrificing possibly healthy trees surrounding stricken ones.

Anthurium growers have their own disease to contend with—a persistent bacteria that is discouraging reinvestment in the industry. Exports through June 1992 are 2% higher than 1991 levels, but actually measure only 57% of the 10-year average. A large increase in the Japanese market has compensated for declines in both mainland and European markets. In the overall industry of flowers and nursery products, the Big Island garnered the lion's share again with 46% of state production, although 1991 sales of $31.3 million were down 7%.

The Big Island accounted for 71% of total banana production statewide in 1991 due to gains in both acreage

Chart 2
Sugar Production
Hawaii County vs. the State



harvested and yield per acre. With continuing field innovations and packing house expansion, the Big Island will very likely increase its market share.

Volcano Winery just produced its first wines for sale this summer after more than five years of experimenting. Goals have been set at 200 cases per month, and production will focus on white wines and wines combining grape with local fruit such as lilikoi and guava. A tasting room may be added next year.

In 1991, production of fresh vegetables and melons on the Big Island increased 6% to 20.4 million pounds or 26% of total state production, despite a 5% reduction in harvested acreage. The farm value was estimated to be $7.6 million, an 8% increase from 1990. The biggest crops were: Chinese cabbage based on volume, and tomatoes based on value.

> Significant restructuring is occurring in industries like tourism and agriculture, and a new generation of niche marketers will emerge, leading to an even greater broadening of Hawaii's economic base.

Record coffee production around the world has served to depress prices, said to be the lowest in ten years. Local growers are therefore not eager to maximize harvests, and the number of farms has actually decreased slightly this year.

Dry conditions and fungi causing macadamia quick decline took their toll on crop volume and quality this past season and have growers concerned about next year's harvest. Increased global competition and lower returns have forced local producers to take greater advantage of the value added process. One thing to note in these slower economic times is that small luxuries like chocolate-covered macadamia nuts do very well.

Science and High Technology. The Natural Energy Laboratory of Hawaii Authority (NELHA) estimates the 1992-1993 economic impact of its tenants to be $30 million. One tenant, Cyanotech, is greatly increasing sales and has begun to manufacture its own Spirulina tablets made from algae for the global retail market.

NELHA is working on four new projects. The world's only open-cycle ocean thermal energy conversion (OTEC) plant, a $12-million project, is expected to be producing a net output of 40KW by the end of this year. Three more research projects are being considered and should significantly expand the industry on the Big Island. These projects are expected to add 500 jobs; ongoing construction at NELHA now provides 44 jobs.

Construction began in July on two telescopes atop Mauna Kea, the Keck II and the Subaru, which are scheduled for completion in 1996 and 1999, respectively. Astronomers are now able to view objects as far away as seven or eight billion light-years; with both Keck telescopes, they will be able to see back almost to the beginning of the universe—15 billion years ago.

Two more telescopes, the Gemini and the Smithsonian Submillimeter Array, are also expected to be in place by the end of the decade. Then inventory on Mauna Kea will stand at 14 telescopes, representing an investment of well over half a billion dollars. Current activity adds an estimated $20 million to the Big Island economy every year. When all facilities are operational, projected budgets will total over $40 million and employment will surpass 300.

Energy. Hawaii Electric Light Co.'s new $24-million generator came on line in Keaau in August, bringing capacity up to 180MW including purchase power from other sources. And that was none too soon to meet a 5% growth in demand to date in 1992. However, its average generator age is 21 years. Thus HELCO is investigating several possible sites in West Hawaii so it can bring a new generator on line in 1994 to

meet projected demand.

From July 1991 to July 1992, HELCO scheduled 20 rolling blackouts. Consumers have also endured numerous unscheduled outages. Although measurement of the economic impact of these lapses in system reliability is beyond the scope of this report, the gravity of the situation is clear as HELCO searches for ways to supply more power. Hydroelectric power is the only reliable alternate energy source at present.

However, once flow testing proves successful, Puna Geothermal Venture (PGV) could begin supplying power in September, almost a year after its original deadline. PGV, under contract to produce 25MW for 35 years, built a $110-million closed system to tap an arguably renewable source. The power plant was designed with 10 generators of 3MW each to ensure reliability. Drilling will continue at least through the first quarter of next year, depending on well productivity.

Chart 3
County of Hawaii
Leading Indicators

Outlook. A graph of First Hawaiian Bank's index of leading indicators for the county shows that the robust economic growth of the past decade is slowing once again (see Chart 3). The index has yet to register a definite pattern of decline, however, seeming instead to have entered a plateau. Compare, as depicted in the graph, the recession of the early eighties, a slow period in 1985—the year of the airline strike—and, more recently, the Persian Gulf Crisis.

So, while the drought and mainland recession may have sorely tested the resiliency of its economy, the Big Island has certainly weathered worse economic conditions before. Significant restructuring is occurring in industries like tourism and agriculture, and a new generation of niche marketers will emerge, leading to an even greater broadening of Hawaii's economic base.

HAWAII COUNTY STATISTICS

	Unit	Period	1987	1988	1989	1990	1991	Jan.-July 1992	% Change Jan.-July 1991/1992	% Change Annual 1990/1991
Population, Resident	Number	July 1	110,300	112,400	116,600	121,000	NA	NA	NA	NA
Civilian Labor Force	Number	Mo. Avg.	54,050	54,900	57,200	61,550	65,350	67,600	4.4	6.2
Employment	Number	Mo. Avg.	50,950	52,200	54,700	58,800	62,650	62,800	1.1	6.5
Unemployment	Number	Mo. Avg.	3,100	2,700	2,200	2,350	2,700	4,800	83.9	14.9
Unemployment Rate	Percent	Mo. Avg.	5.8	4.9	3.8	3.8	4.1	7.1	3.1[1]	0.3[1]
Total Job Count[2]	Number	Mo. Avg.	45,600	47,500	52,000	57,000	60,050	60,250	1.5	5.4
Gross Business Receipts	Mil. $	Total	1,861.6	2,081.8	2,307.5	2,758.7	2,765.8	1,366.2[3]	-4.7	0.3
State Tax Collections[4]	Thous. $	Total	105,468	113,421	133,387	134,204	157,165	84,107	-9.8	17.1
Estimated Westbound Visitors	Thous.	Total	782.6	782.4	946.5	982.9	980.5	543.3	-10.4	-0.2
Estimated Eastbound Visitors	Thous.	Total	—	—	174.3	187.9	191.1	124.1	9.6	1.7
Hotel Inventory	Number	February	7,328	7,180	8,161	8,952	9,384	NA	NA	4.8
Hotel Occupancy	Percent	Mo. Avg.	60.8	56.4	60.8	62.0	57.2	53.7	-5.0[1]	-4.8[1]
Construction Put in Place	Thous. $	Total	125,310	162,756	191,675	350,810	354,342	140,624[3]	-24.4	1.0
Private Permits	Thous. $	Total	142,780	181,299	338,502	422,830	369,452	275,864	11.1	-12.6
Residential Permits	Thous. $	Total	104,002	132,272	219,785	264,975	310,687	105,161	-48.9	17.3
Non-Residential Permits	Thous. $	Total	38,778	49,027	118,717	157,855	58,765	170,703	302.4	-62.8
Public Contracts Awarded	Thous. $	Total	31,339	69,568	24,416	55,442	56,816	42,451	88.8	2.5
Real Estate Resales										
Single Family	Number	Total	642	806	961	1,093	752	439	12.3	-31.2
Average Price	Dollars	Cum. Avg.	114,838	138,734	174,050	199,017	204,231	204,027	4.1	2.6
Condominium	Number	Total	219	273	430	583	296	153	10.9	-49.2
Average Price	Dollars	Cum. Avg.	123,558	123,905	151,332	156,630	173,970	218,868	31.3	11.1
Sugar Production, Raw Sugar 96°	Thous. Tons	Total	291	267	234	213	182	74.8[1]	-12.3	-14.4
Diversified Crops/Livestock	Thous. $	Total	115,906	134,679	150,545	142,997	NA	NA	NA	NA
Diversified Crops	Thous. $	Total	89,491	105,619	117,841	113,580	NA	NA	NA	NA
Livestock	Thous. $	Total	26,415	29,060	32,704	29,417	NA	NA	NA	NA

[1]Incremental change [2]Refers to number of jobs rather than number of persons employed. Persons with more than one job are counted more than once.
[3]Jan through Jun, Jul not yet available.
[4]Totals do not include real property taxes.
NA=not available